

**CITY OF SPIRIT LAKE  
INDEPENDENT AUDITORS' REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
JUNE 30, 2006**

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CITY OF SPIRIT LAKE  
OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Eric Nielsen	Mayor	December 31, 2007
Barb Ricke	Council Member - to December 31, 2005	
Duane Yager	Council Member - to December 31, 2005	
Jerry Harbst	Council Member	December 31, 2007
Jeff Thee	Council Member	December 31, 2007
Kevin Bice	Council Member	December 31, 2007
Clyde Ihrke	Council Member - from January 1, 2006	December 31, 2009
Steve Balm	Council Member - from January 1, 2006	December 31, 2009
Peter Hegeman	Clerk/Administrator/Treasurer - resigned September 29, 2006	
Earl Maahs	Attorney	December 31, 2007

**WINTHER, STAVE & Co., LLP**  
*Certified Public Accountants*

1316 West 18th Street  
P.O. Box 175  
Spencer, Iowa 51301-0175  
Phone 712-262-3117  
FAX 712-262-3159

1004 21st Street #4  
P.O. Box 187  
Milford, Iowa 51351  
Phone 712-338-2488  
FAX 712-338-2510

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Spirit Lake  
Spirit Lake, IA 51360

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Spirit Lake, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Spirit Lake's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Spirit Lake at June 30, 2006 and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2007 on our consideration of the City of Spirit Lake's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis and budgetary comparison information on pages 4 through 12 and 53 through 57 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Spirit Lake's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2005 (which are not presented herein) and expressed an unqualified opinion on the June 30, 2004 and 2005 financial statements and a qualified opinion on the June 30, 2002 and 2003 financial statements due to the omission of the general fixed asset account group. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Wincher, Stuart & Co LLP". The signature is written in a cursive, flowing style.

January 24, 2007

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Spirit Lake provides this management's discussion and analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2005 Financial Highlights**

- Revenues of the City's governmental activities increased 4.57%, or approximately \$225,000 from fiscal 2005 to fiscal 2006. Property tax increased approximately \$286,000.
- Program expenditures decreased by 6.48% or approximately \$719,000, in fiscal 2006 from fiscal 2005. Public safety, public works, culture and recreation, community and economic development, general government, and capital projects expenditures increased approximately \$82,000, \$401,000, \$246,000, \$198,000, \$56,000, and \$1,341,000, respectively. Debt service expenditures decreased by approximately \$3,043,000.
- The City's net assets increased 5.99%, or approximately \$1,125,000, from June 30, 2005 to June 30, 2006. Of this amount, the net assets of the governmental funds increased by approximately \$709,000 and the net assets of the business type activities increased by approximately \$416,000.

### **Using This Annual Report**

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These statements provide information about the activities of the City as a whole and present an overall view of the City's finances.

The fund financial statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds.

## **Basis of Accounting**

The City financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The City prepares its budget and maintains its financial records on the cash basis.

## **Reporting The City's Financial Activities**

### Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities reports information which helps answer this question.

The Statement of Net Assets presents all of the City's assets and liabilities, with the difference reported as "net assets". Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year.

The Statement of Net Assets and the Statement of Activities report two kinds of activities:

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system, and the solid waste department. These activities are financed primarily by user charges.

### Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: (a) the General Fund, (b) the Special Revenue Funds, such as Local Option Sales Tax and Tax Increment Financing, (c) the Debt Service Fund, and (d) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenue, expenditures and changes in fund balances.

2. Proprietary funds account for the City's Enterprise and Internal Service Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and solid waste funds, considered to be major funds of the City. The City has two Internal Service Funds which are used to account for the City's self-insurance and to account for reserves accumulated to fund future equipment purchases.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenue, expenses and changes in fund net assets, and a statement of cash flows.

### Government-Wide Financial Analysis

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for governmental and business type activities.

#### Net Assets as of June 30, 2006

	Governmental Activities	Business Type Activities	Total
Current and other assets .....	\$ 5,550,679	\$ 1,696,639	\$ 7,247,318
Capital assets .....	<u>29,135,155</u>	<u>11,126,126</u>	<u>40,261,281</u>
Total assets	<u>34,685,834</u>	<u>12,822,765</u>	<u>47,508,599</u>
Long-term liabilities .....	17,345,831	3,130,232	20,476,063
Other liabilities .....	<u>6,907,114</u>	<u>202,878</u>	<u>7,109,992</u>
Total liabilities	<u>24,252,945</u>	<u>3,333,110</u>	<u>27,586,055</u>
Net assets:			
Invested in capital assets - net of related debt .....	11,148,203	7,592,998	18,741,201
Restricted .....	1,539,854		1,539,854
Unrestricted .....	<u>(2,255,168)</u>	<u>1,896,657</u>	<u>(358,511)</u>
Total net assets	<u>\$10,432,889</u>	<u>\$ 9,489,655</u>	<u>\$19,922,544</u>

#### Net Assets as of June 30, 2005

	Governmental Activities	Business Type Activities	Total
Current and other assets .....	\$ 4,501,435	\$ 2,332,878	\$ 6,834,313
Capital assets .....	<u>24,467,287</u>	<u>10,117,497</u>	<u>34,584,784</u>
Total assets	<u>28,968,722</u>	<u>12,450,375</u>	<u>41,419,097</u>
Long-term liabilities .....	12,557,421	3,265,431	15,822,852
Other liabilities .....	<u>6,687,020</u>	<u>111,735</u>	<u>6,798,755</u>
Total liabilities	<u>19,244,441</u>	<u>3,377,166</u>	<u>22,621,607</u>
Net assets:			
Invested in capital assets - net of related debt .....	11,957,587	6,901,404	18,858,991
Restricted .....	1,057,180		1,057,180
Unrestricted .....	<u>(3,290,486)</u>	<u>2,171,805</u>	<u>(1,118,681)</u>
Total net assets	<u>\$ 9,724,281</u>	<u>\$ 9,073,209</u>	<u>\$18,797,490</u>



# Changes in Net Assets for the Year Ended June 30, 2006

	Governmental Activities	Business Type Activities	Total
Revenues:			
Program revenues:			
Charges for services .....	\$ 172,408	\$2,301,925	\$ 2,474,333
Operating grants, contributions, and restricted interest .....	484,559	886	485,445
Capital grants, contributions, and restricted interest .....	125,732	23	125,755
General revenues:			
Property and other city taxes .....	1,293,761		1,293,761
Tax increment financing .....	2,172,594		2,172,594
Local option sales tax .....	662,261		662,261
Unrestricted grants and contributions .....			
Unrestricted investment earnings .....	100,586	38,699	139,285
Unrestricted miscellaneous .....	82,792		82,792
Operating transfers .....	3,450	(3,450)	
Fixed asset transfers .....	(297,852)	297,852	
Total revenues	<u>4,800,291</u>	<u>2,635,935</u>	<u>7,436,226</u>
Program expenses:			
Public safety .....	881,040		881,040
Public works .....	1,160,477		1,160,477
Culture and recreation .....	542,766		542,766
Community and economic development .....	485,133		485,133
General government .....	340,037		340,037
Debt service .....	682,230		682,230
Water .....		1,396,540	1,396,540
Sewer .....		167,418	167,418
Solid waste .....		655,531	655,531
Total expenses	<u>4,091,683</u>	<u>2,219,489</u>	<u>6,311,172</u>
Change in net assets	708,608	416,446	1,125,054
Net assets - beginning of year .....	<u>9,724,281</u>	<u>9,073,209</u>	<u>18,797,490</u>
Net assets - end of year	<u>\$10,432,889</u>	<u>\$9,489,655</u>	<u>\$19,922,544</u>

Net assets of governmental activities increased from FY05 by approximately \$709,000 or 7.29%. Net assets of business type activities increased from FY05 by approximately \$416,000 or 4.59%. The largest portion of the City's net assets is the invested in capital assets (e.g. land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Other restricted net assets are economic development loans.

Changes in Net Assets for the Year Ended June 30, 2005

	Governmental Activities	Business Type Activities	Total
Revenues:			
Program revenues:			
Charges for services .....	\$ 157,420	\$1,922,963	\$ 2,080,383
Operating grants, contributions, and restricted interest .....	478,154	4,869	483,023
Capital grants, contributions, and restricted interest .....	775,928		775,928
General revenues:			
Property and other city taxes .....	986,539		986,539
Tax increment financing .....	1,731,352		1,731,352
Local option sales tax .....	725,777		725,777
Unrestricted grants and contributions .....	8,343		8,343
Unrestricted investment earnings .....	11,601	9,046	20,647
Unrestricted miscellaneous .....	19,234		19,234
Operating transfers .....	3,600	(3,600)	
Fixed asset transfers .....	(387,135)	387,135	
Total revenues	<u>4,510,813</u>	<u>2,320,413</u>	<u>6,831,226</u>
Program expenses:			
Public safety .....	785,304		785,304
Public works .....	1,163,528		1,163,528
Culture and recreation .....	437,734		437,734
Community and economic development .....	287,054		287,054
General government .....	331,767		331,767
Debt service .....	2,784,280		2,784,280
Water .....		1,175,379	1,175,379
Sewer .....		130,971	130,971
Solid waste .....		583,583	583,583
Total expenses	<u>5,789,667</u>	<u>1,889,933</u>	<u>7,679,600</u>
Change in net assets	(1,278,854)	430,480	(848,374)
Net assets - beginning of year .....	<u>11,003,135</u>	<u>8,642,729</u>	<u>19,645,864</u>
Net assets - end of year	<u>\$ 9,724,281</u>	<u>\$9,073,209</u>	<u>\$18,797,490</u>

## Individual Major Governmental Fund Analysis

### Changes in Fund Balances - Governmental Funds For the Years Ended June 30, 2006 and 2005

	2006 <u>All Funds</u>	2005 <u>All Funds</u>
Revenues .....	\$ 5,142,078	\$ 4,917,234
Expenditures .....	<u>10,381,329</u>	<u>11,100,668</u>
Net	(5,239,251)	(6,183,434)
Other financing sources and changes in inventories and prepaids	<u>6,068,055</u>	<u>3,367,282</u>
Increase (decrease) in fund balances	828,804	(2,816,152)
Fund balance - beginning of year .....	<u>(2,209,044)</u>	<u>607,108</u>
Fund balance - end of year	<u>\$ (1,380,240)</u>	<u>\$ (2,209,044)</u>

Governmental funds reported a combined fund deficit of \$1,380,240 at June 30, 2006 which was \$828,804 less than the fund deficit at June 30, 2005.

The general fund showed an increase in fund balance of \$17,537 to \$251,948. This increase was due to the general fund being reimbursed for payroll costs of \$105,940 which were charged to the general fund but should have been charged to various construction projects. In addition, the City changed its method of accounting for the economic development loans fund. In prior years, that fund was reported as a separate special revenue fund. Since that fund is not required to be reported in a separate fund, the City now is including that fund with the general fund. Without this change, the ending fund balance in the general fund would be \$546,654 less than reported.

The City is in the process of finding a solution to the problem. The City did not request the maximum amount of tax increment financing (TIF) revenues for fiscal year ending June 30, 2007. It is the intention of the City not to request the maximum amount of TIF for years ending after June 30, 2008. This will result in more property tax revenues for the general fund. The proposed budget for fiscal year ending June 30, 2008 requests an increase in the employee benefits levy and also requests an emergency levy. The City also hopes to change the local option sales tax referendum to allow the 60%, which is now allocated to capital improvements, to be allocated to the general fund. The City believes these actions, in addition to controlling expenditures and a general increase in property tax valuations, will eliminate the deficit.

The local option sales tax fund showed an increase in fund balance of \$586,736 to \$1,069,196 due to the proceeds of a \$1,000,000 bond issue which has not been completely spent.

The tax increment financing fund showed an increase in fund balance of \$885,178 due to a \$5,000,000 bond issue which has not been completely transferred to the capital projects fund.

The capital project fund showed a decrease in fund balance of \$652,154 and is showing a deficit of \$3,724,580. This deficit will be eliminated by transfers from the tax increment financing fund and from the proceeds of a new bond issue.

## Individual Major Business Type Fund Analysis

### Changes in Net Assets - Proprietary Funds For the Years Ended June 30, 2006 and 2005

	Enterprise Funds		Internal Service Funds	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues .....	\$2,338,745	\$1,936,486	\$ 41,793	\$ 35,156
Expenses .....	<u>2,222,921</u>	<u>1,898,772</u>	<u>28,811</u>	<u>14,550</u>
Net	115,824	37,714	12,982	20,606
Net transfers .....	<u>293,402</u>	<u>329,135</u>	<u>(6,860)</u>	<u>54,400</u>
Increase in net assets	409,226	366,849	6,122	75,006
Net assets - beginning of year .....	<u>8,958,470</u>	<u>8,591,621</u>	<u>240,064</u>	<u>165,058</u>
Net assets - end of year	<u>\$9,367,696</u>	<u>\$8,958,470</u>	<u>\$246,186</u>	<u>\$240,064</u>

Proprietary funds reported combined net assets of \$9,613,882 at June 30, 2006 which was an increase of \$415,348 over the net assets at June 30, 2005.

The water fund showed an increase in net assets of \$19,423 due to transfers of capital assets from the capital projects funds of \$180,337. The sewer and solid waste funds showed increases in net assets of \$159,523 and \$230,280, respectively. The internal services funds showed a combined increase in net assets of \$6,122.

### Budgetary Highlights

Over the course of the year, the City amended the budget once. The amendment was approved on May 23, 2006. This amendment was to cover additional capital project and debt service expenditures. Even with the amendment, disbursements exceeded budgeted amounts in the culture and recreation and community and economic development functions.

## Capital Assets and Debt Administration

### Capital Assets Administration

The City's capital assets are summarized as follows:

June 30, 2006

	Governmental Activities	Business Type Activities	Total
Land .....	\$ 412,903	\$ 96,859	\$ 509,762
Construction in progress .....	4,752,165	643,360	5,395,525
Buildings and improvements .....	1,882,153	5,814,548	7,696,701
Water towers .....		891,356	891,356
Equipment and vehicles .....	2,729,002	1,458,551	4,187,553
Infrastructure .....	24,291,992	5,355,337	29,647,329
Total capital assets	34,068,215	14,260,011	48,328,226
Less accumulated depreciation .....	4,933,060	3,133,885	8,066,945
Net capital assets	<u>\$29,135,155</u>	<u>\$11,126,126</u>	<u>\$40,261,281</u>
Depreciation expense .....	<u>\$ 687,053</u>	<u>\$ 317,683</u>	<u>\$ 1,004,736</u>

June 30, 2005

	Governmental Activities	Business Type Activities	Total
Land .....	\$ 302,181	\$ 96,859	\$ 399,040
Construction in progress .....	4,921,859	5,837	4,927,696
Buildings and improvements .....	1,714,505	5,774,220	7,488,725
Water towers .....		891,356	891,356
Equipment and vehicles .....	2,403,223	1,125,908	3,529,131
Infrastructure .....	19,413,460	5,039,519	24,452,979
Total capital assets	28,755,228	12,933,699	41,688,927
Less accumulated depreciation .....	4,287,941	2,816,202	7,104,143
Net capital assets	<u>\$24,467,287</u>	<u>\$10,117,497</u>	<u>\$34,584,784</u>
Depreciation expense .....	<u>\$ 616,254</u>	<u>\$ 221,782</u>	<u>\$ 838,036</u>

## Debt Administration

At June 30, 2006, the City had \$20,465,000 in bonds and other long-term debt, compared to \$15,766,093 last year as shown below.

### Outstanding Debt at Year-End

	June 30,	
	<u>2006</u>	<u>2005</u>
General obligation bonds .....	\$11,385,000	\$12,550,000
General obligation annual appropriation bonds .....	5,000,000	
Local option sales tax revenue bonds .....	1,000,000	
Water revenue capital loan notes .....	<u>3,080,000</u>	<u>3,216,093</u>
Total	<u>\$20,465,000</u>	<u>\$15,766,093</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt and local option sales tax bonds of \$12,385,000 is within its constitutional debt limit of \$14,486,885. The water revenue capital loan notes used to finance the water plant improvement project do not count toward the City's legal 5% debt limitations. The annual appropriation bonds count toward the City's debt limitation only to the extent of principal and interest due within the next fiscal year.

The City issued \$5,000,000 in general obligation annual appropriation bonds and \$1,000,000 in local option sales tax revenue bonds during the year ended June 30, 2006.

### **Economic Factors Bearing on the City's Future**

The city's major concerns when setting the budget for June 30, 2007 were the general fund and finding funding for the various construction projects. The City requested less than the maximum tax increment financing revenues which will result in more general fund property tax revenue. The budget projects a small surplus in the general fund.

Major projects budgeted for June 30, 2007 included completion of several projects, including Southern Glen, 28<sup>th</sup> Street and 235<sup>th</sup> Avenue, the 2006 paving and lighting projects, and the water tower project. The City also budgeted for a water treatment plant expansion project. At this point, however, the water plant expansion project has been delayed.

The City raised water and sewer rates effective October 1, 2005. Another rate increase was effective July 1, 2006 and a third increase will take effect on July 1, 2007.

### **Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City office, 1803 Hill Avenue, Spirit Lake, Iowa.

## BASIC FINANCIAL STATEMENTS

CITY OF SPIRIT LAKE  
STATEMENT OF NET ASSETS  
JUNE 30, 2006

	Governmental <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and pooled investments .....	\$ 1,447,553	\$ 1,311,284	\$ 2,758,837
Receivables - net, where applicable, of allowances for uncollectibles:			
Property tax:			
Delinquent .....	14,608		14,608
Succeeding year .....	1,520,608		1,520,608
Tax increment financing:			
Delinquent .....	13,252		13,252
Succeeding year .....	1,955,023		1,955,023
Accounts and unbilled usage .....	7,922	258,653	266,575
Special assessments - current portion .....		1,662	1,662
Accrued interest .....	9,253	1,881	11,134
Economic development loans .....	333,000		333,000
Due from other funds .....	17,154		17,154
Due from other governments .....	163,031		163,031
Inventories .....	40,488	36,719	77,207
Prepaid expenses .....	28,787	25,677	54,464
Restricted assets:			
Cash and pooled investments .....		20,235	20,235
Special assessments - net of current portion .....		6,652	6,652
Loan fees - net of accumulated amortization .....		33,876	33,876
Capital assets - net of accumulated depreciation ....	<u>29,135,155</u>	<u>11,126,126</u>	<u>40,261,281</u>
<b>TOTAL ASSETS</b>	<u>34,685,834</u>	<u>12,822,765</u>	<u>47,508,599</u>



CITY OF SPIRIT LAKE  
STATEMENT OF NET ASSETS - Continued  
JUNE 30, 2006

	Governmental Activities	Business Type Activities	Total
<b>LIABILITIES</b>			
Accounts payable .....	\$ 3,127,175	\$ 106,976	\$ 3,234,151
Medical claims payable .....	1,996	1,902	3,898
Retainages payable .....	141,389	24,650	166,039
Due to other funds .....		17,154	17,154
Due to other governments .....		12,306	12,306
Salaries payable .....	53,648	31,548	85,196
Accrued interest payable .....	64,275	8,342	72,617
Deposit on new bond issue .....	43,000		43,000
Deferred revenues:			
Succeeding year property tax .....	1,520,608		1,520,608
Succeeding year tax increment financing .....	1,955,023		1,955,023
Long-term liabilities:			
Portion due of payable within one year:			
Customer deposits .....		20,235	20,235
Compensated absences .....	60,196	29,997	90,193
General obligation bonds .....	1,240,000		1,240,000
Revenue notes .....		142,000	142,000
Portion due of payable after one year:			
General obligation bonds - net of unamortized bond discount .....	15,045,635		15,045,635
Local option sales tax revenue bonds .....	1,000,000		1,000,000
Revenue notes .....		<u>2,938,000</u>	<u>2,938,000</u>
<b>TOTAL LIABILITIES</b>	<u>24,252,945</u>	<u>3,333,110</u>	<u>27,586,055</u>
<b>NET ASSETS</b>			
Invested in capital assets - net of related debt .....	11,148,203	7,592,998	18,741,201
Restricted for:			
Debt service .....	(46,650)		(46,650)
Economic development loans .....	333,000		333,000
Special revenue purposes .....	1,253,504		1,253,504
Unrestricted .....	<u>(2,255,168)</u>	<u>1,896,657</u>	<u>(358,511)</u>
<b>TOTAL NET ASSETS</b>	<u>\$10,432,889</u>	<u>\$9,489,655</u>	<u>\$19,922,544</u>

CITY OF SPIRIT LAKE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006

		Program Revenues		
		Charges for	Operating	Capital
		Services	Grants,	Grants,
			Contributions,	Contributions,
			and	and
			Restricted	Restricted
			Interest	Interest
	Expenses			
FUNCTIONS/PROGRAMS:				
GOVERNMENTAL ACTIVITIES:				
Public safety .....	\$ 881,040	\$ 168,770	\$ 28,167	
Public works .....	1,160,477		357,898	\$125,732
Culture and recreation .....	542,766	3,638	60,585	
Community and economic development ...	485,133			
General government .....	340,037			
Interest and fees on long-term debt .....	682,230		37,909	
TOTAL GOVERNMENTAL				
ACTIVITIES	<u>4,091,683</u>	<u>172,408</u>	<u>484,559</u>	<u>125,732</u>
BUSINESS TYPE ACTIVITIES:				
Water .....	1,396,540	1,250,368	886	23
Sewer .....	167,418	214,391		
Solid waste .....	655,531	837,166		
TOTAL BUSINESS TYPE ACTIVITIES	<u>2,219,489</u>	<u>2,301,925</u>	<u>886</u>	<u>23</u>
 TOTAL	 <u>\$6,311,172</u>	 <u>\$2,474,333</u>	 <u>\$ 485,445</u>	 <u>\$125,755</u>
GENERAL REVENUES:				
Property and other city taxes levied for:				
General purposes .....				
Tax increment financing .....				
Local option sales tax .....				
Unrestricted investment earnings .....				
Unrestricted miscellaneous .....				
Operating transfers .....				
Fixed asset transfers .....				
TOTAL GENERAL REVENUES				
CHANGE IN NET ASSETS .....				
NET ASSETS - BEGINNING OF YEAR .....				
NET ASSETS - END OF YEAR				

Exhibit B

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (684,103)		\$ (684,103)
(676,847)		(676,847)
(478,543)		(478,543)
(485,133)		(485,133)
(340,037)		(340,037)
<u>(644,321)</u>	<u>                    </u>	<u>(644,321)</u>
<u>(3,308,984)</u>	<u>                    </u>	<u>(3,308,984)</u>
	\$ (145,263)	(145,263)
	46,973	46,973
<u>                    </u>	<u>181,635</u>	<u>181,635</u>
<u>                    </u>	<u>83,345</u>	<u>83,345</u>
<u>(3,308,984)</u>	<u>83,345</u>	<u>(3,225,639)</u>
1,293,761		1,293,761
2,172,594		2,172,594
662,261		662,261
100,586	38,699	139,285
82,792		82,792
3,450	(3,450)	
<u>(297,852)</u>	<u>297,852</u>	<u>                    </u>
<u>4,017,592</u>	<u>333,101</u>	<u>4,350,693</u>
708,608	416,446	1,125,054
<u>9,724,281</u>	<u>9,073,209</u>	<u>18,797,490</u>
<u>\$10,432,889</u>	<u>\$9,489,655</u>	<u>\$19,922,544</u>

CITY OF SPIRIT LAKE  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2006

ASSETS

	<u>General</u>	<u>Local Option Sales Tax</u>	<u>Tax Increment Financing</u>
ASSETS:			
Cash and pooled investments .....		\$1,112,503	\$ 106,335
Receivables - net, where applicable, of allowance for uncollectibles:			
Property tax:			
Delinquent .....	\$ 11,552		
Succeeding year .....	1,224,830		
Tax increment financing:			
Delinquent .....			13,252
Succeeding year .....			1,955,023
Accounts .....	7,922		
Accrued interest .....	599	3,922	3,881
Economic development loans .....	333,000		
Due from other funds .....	365,932	168,451	930,704
Due from other governments .....	8,235	125,148	
Inventories .....	40,488		
Prepaid expenses .....	28,787		
	<u>\$2,021,345</u>	<u>\$1,410,024</u>	<u>\$3,009,195</u>
TOTAL ASSETS			

LIABILITIES AND FUND EQUITY

LIABILITIES:			
Accounts payable .....	\$ 322,283	\$ 1,148	\$ 33,441
Retainages payable .....			
Due to other funds .....	168,451	339,680	87,639
Salaries payable .....	46,980		
Compensated absences .....	6,853		
Deferred revenue:			
Succeeding year property tax .....	1,224,830		
Succeeding year tax increment financing .....			1,955,023
TOTAL LIABILITIES	<u>1,769,397</u>	<u>340,828</u>	<u>2,076,103</u>

FUND BALANCES:

Reserved for debt service .....			
Reserved for economic development loans .....	333,000		
Reserved for inventories and prepaids .....	69,275		
Unreserved:			
Designated for economic development .....	213,654		
Undesignated reported in:			
General fund .....	(363,981)		
Special revenue funds .....		1,069,196	933,092
Capital projects funds .....			
TOTAL FUND BALANCES	<u>251,948</u>	<u>1,069,196</u>	<u>933,092</u>

TOTAL LIABILITIES AND FUND BALANCES	<u>\$2,021,345</u>	<u>\$1,410,024</u>	<u>\$3,009,195</u>
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# EXHIBIT C

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total</u>
\$ 46,744		\$ 56,421	\$1,322,003
		3,056	14,608
		295,778	1,520,608
			13,252
			1,955,023
			7,922
	\$ 9	169	8,580
			333,000
78,541			1,543,628
1,781		27,867	163,031
			40,488
			28,787
<u>\$127,066</u>	<u>\$ 9</u>	<u>\$383,291</u>	<u>\$6,950,930</u>
	\$2,761,937	\$ 8,366	\$3,127,175
	141,389		141,389
\$109,441	821,263		1,526,474
		6,668	53,648
			6,853
		295,778	1,520,608
			1,955,023
<u>109,441</u>	<u>3,724,589</u>	<u>310,812</u>	<u>8,331,170</u>
17,625			17,625
			333,000
			69,275
			213,654
			(363,981)
		72,479	2,074,767
	(3,724,580)		(3,724,580)
<u>17,625</u>	<u>(3,724,580)</u>	<u>72,479</u>	<u>(1,380,240)</u>
<u>\$127,066</u>	<u>\$ 9</u>	<u>\$383,291</u>	<u>\$6,950,930</u>

See Notes to Financial Statements

CITY OF SPIRIT LAKE  
RECONCILIATION OF THE BALANCE SHEET -  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2006

TOTAL GOVERNMENTAL FUND BALANCES PER EXHIBIT C .....	\$(1,380,240)
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of the assets is \$34,068,215 and the accumulated depreciation is \$4,933,060. ....	29,135,155
The internal service funds are used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds and to fund future equipment purchases. A portion of the assets and liabilities of the internal service funds is included in governmental activities in the Statement of Net Assets. ....	124,227
Long-term liabilities, including bonds, a portion of compensated absences, and accrued interest payable, are not due and payable within the current period and, therefore, are not reported as liabilities in the funds. ....	<u>(17,446,253)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES PER EXHIBIT A	<u>\$10,432,889</u>

CITY OF SPIRIT LAKE  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Local Option Sales Tax</u>	<u>Tax Increment Financing</u>
REVENUES:			
Property tax .....	\$ 881,228		
Tax increment financing .....			\$2,172,594
Other city taxes .....	164,224	\$ 662,261	
Licenses and permits .....	131,435		
Use of money and property .....	6,385	11,857	77,489
Intergovernmental .....	50,208		
Charges for services .....	121,608		
Miscellaneous .....	61,003	786	
TOTAL REVENUES	<u>1,416,091</u>	<u>674,904</u>	<u>2,250,083</u>
EXPENDITURES:			
Public safety .....	711,843		
Public works .....	719,453		
Culture and recreation .....	447,837	100,000	
Community and economic development .....	172,469	110,721	201,942
General government .....	291,591	6,872	53,775
Debt service .....			
Capital projects .....			87,639
TOTAL EXPENDITURES	<u>2,343,193</u>	<u>217,593</u>	<u>343,356</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(927,102)</u>	<u>457,311</u>	<u>1,906,727</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in .....	865,894		
Operating transfers out .....		(870,575)	(5,999,549)
Proceeds from stamped warrants .....			
Stamped warrants redeemed .....			
Sale of fixed assets .....	56,000		
Good faith deposit on new bond issue .....			43,000
Bond proceeds .....		1,000,000	5,000,000
Bond discount .....			(65,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>921,894</u>	<u>129,425</u>	<u>(1,021,549)</u>
NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	(5,208)	586,736	885,178
FUND BALANCES - BEGINNING OF YEAR, as restated .....	234,411	482,460	47,914
NET INCREASE IN RESERVES FOR PREPAID EXPENSES AND INVENTORY OF SUPPLIES .....	<u>22,745</u>		
FUND BALANCES - END OF YEAR	<u>\$ 251,948</u>	<u>\$1,069,196</u>	<u>\$ 933,092</u>

## EXHIBIT E

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total</u>
		\$ 248,309	\$ 1,129,537
			2,172,594
			826,485
			131,435
\$ 1	\$ 87	1,612	97,431
33,481	5,000	365,574	454,263
			121,608
<u>4,429</u>	<u>120,732</u>	<u>21,775</u>	<u>208,725</u>
<u>37,911</u>	<u>125,819</u>	<u>637,270</u>	<u>5,142,078</u>
		148,062	859,905
		381,027	1,100,480
		102,048	649,885
			485,132
		11,487	363,725
1,876,871	2,616		1,879,487
	<u>4,955,076</u>		<u>5,042,715</u>
<u>1,876,871</u>	<u>4,957,692</u>	<u>642,624</u>	<u>10,381,329</u>
<u>(1,838,960)</u>	<u>(4,831,873)</u>	<u>(5,354)</u>	<u>(5,239,251)</u>
1,835,821	4,289,654		6,991,369
	(109,935)		(6,980,059)
	744,471		744,471
	(744,471)		(744,471)
			56,000
			43,000
			6,000,000
			<u>(65,000)</u>
<u>1,835,821</u>	<u>4,179,719</u>		<u>6,045,310</u>
(3,139)	(652,154)	(5,354)	806,059
20,764	(3,072,426)	77,833	(2,209,044)
			<u>22,745</u>
<u>\$ 17,625</u>	<u>\$(3,724,580)</u>	<u>\$ 72,479</u>	<u>\$(1,380,240)</u>



CITY OF SPIRIT LAKE  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO  
 THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2006

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS  
 PER EXHIBIT E ..... \$ 806,059

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN  
 THE STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital expenditures exceeded depreciation expense for the year, as follows:

Expenditures for capital assets .....	\$5,652,773	
Transferred to water and sewer .....	(297,852)	
Depreciation expense .....	<u>(687,053)</u>	4,667,868

Prepaid expenses and inventory are not available to pay current period expenses and, therefore, are deferred in the funds. The change in prepaid expenses and inventory results in differences between the statements, as follows:

Inventories - end of year .....	40,488	
Prepaid expenses - end of year .....	28,787	
Inventories - beginning of year .....	(23,438)	
Prepaid expenses - beginning of year .....	<u>(23,092)</u>	22,745

Certain other receivables are not available to pay current period expenses and, therefore, are deferred in the funds. The change in these deferred amounts results in differences between the statements, as follows:

Other receivables deferred - end of year .....	-	
Other receivables deferred - beginning of year .....	<u>(600)</u>	(600)

Proceeds from issuing long-term liabilities provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year new issues exceeded repayments, as follows:

New issues .....	(6,000,000)	
Deposit on new issue .....	(43,000)	
Bond discount on new issues .....	65,000	
Amortization of bond discount .....	(5,935)	
Repayments .....	<u>1,165,000</u>	(4,818,935)

CITY OF SPIRIT LAKE  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO  
 THE STATEMENT OF ACTIVITIES - Continued  
 FOR THE YEAR ENDED JUNE 30, 2006

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditure in governmental funds. The change in these accrued expenses results in differences between the statements, as follows:

Compensated absences - end of year .....	\$ (53,343)	
Accrued interest payable - end of year .....	(64,275)	
Compensated absences - beginning of year .....	47,721	
Accrued interest payable - beginning of year .....	<u>102,466</u>	\$ 32,569

The internal service funds are used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds and to fund future equipment purchases. A portion of the change in net assets of the internal services funds is reported with governmental activities. .... (1,098)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES PER EXHIBIT B	<u>\$ 708,608</u>
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CITY OF SPIRIT LAKE  
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
JUNE 30, 2006

ASSETS				
Enterprise Funds				
	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
ASSETS				
Cash and pooled investments .....		\$ 603,794	\$ 583,629	\$1,187,423
Receivables - net of allowance for uncollectibles:				
Accounts and unbilled usage .....	\$ 196,493	33,261	28,899	258,653
Special assessments - current portion .....		1,662		1,662
Accrued interest .....	697	735	449	1,881
Due from other funds .....		36,657		36,657
Inventories .....	15,874		20,845	36,719
Prepaid expenses .....	19,023	1,125	5,529	25,677
Restricted assets:				
Customer deposits - cash .....	20,235			20,235
Special assessments - net of current portion		6,652		6,652
Loan fees - net of accumulated amortization	33,876			33,876
Capital assets - net of accumulated depreciation .....	<u>8,121,821</u>	<u>2,380,776</u>	<u>623,529</u>	<u>11,126,126</u>
TOTAL ASSETS	<u>8,408,019</u>	<u>3,064,662</u>	<u>1,262,880</u>	<u>12,735,561</u>
LIABILITIES:				
Accounts payable .....	44,902	28,877	33,197	106,976
Medical claims payable .....				
Retainages payable .....	24,650			24,650
Due to other funds .....	48,042	5,769		53,811
Due to other governments .....	12,306			12,306
Salaries payable .....	20,309	2,418	8,821	31,548
Accrued interest payable .....	8,342			8,342
Payable from restricted assets:				
Customer deposits .....	20,235			20,235
Compensated absences .....	25,846		4,151	29,997
Revenue notes payable .....	<u>3,080,000</u>			<u>3,080,000</u>
TOTAL LIABILITIES	<u>3,284,632</u>	<u>37,064</u>	<u>46,169</u>	<u>3,367,865</u>
NET ASSETS:				
Invested in capital assets - net of related debt .....	4,603,543	2,365,926	623,529	7,592,998
Unrestricted .....	<u>519,844</u>	<u>661,672</u>	<u>593,182</u>	<u>1,774,698</u>
TOTAL NET ASSETS	<u>\$5,123,387</u>	<u>\$3,027,598</u>	<u>\$1,216,711</u>	<u>\$ 9,367,696</u>

# EXHIBIT G

Internal Service Funds		
<u>Self-Insurance</u>	<u>Equipment Revolving</u>	<u>Total</u>
\$ 77,945	\$171,466	\$249,411
	673	673
<u>77,945</u>	<u>172,139</u>	<u>250,084</u>
3,898		3,898
<u>3,898</u>	<u>      </u>	<u>3,898</u>
<u>74,047</u>	<u>172,139</u>	<u>246,186</u>
<u>\$ 74,047</u>	<u>\$172,139</u>	<u>\$246,186</u>

CITY OF SPIRIT LAKE  
 RECONCILIATION OF STATEMENT OF NET ASSETS - PROPRIETARY FUNDS TO  
 THE STATEMENT OF NET ASSETS  
 JUNE 30, 2006

TOTAL NET ASSETS - ENTERPRISE FUNDS PER EXHIBIT G ..... \$9,367,696

AMOUNTS REPORTED FOR BUSINESS TYPE ACTIVITIES IN THE  
 STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:

The internal service funds are used by the City to charge the cost of partial self  
 funding the City's health insurance benefit plan to the individual funds and to fund  
 future equipment purchases. A portion of the assets and liabilities of the internal  
 service funds is included in business type activities in the Statement of Net Assets. 121,959

TOTAL NET ASSETS - BUSINESS TYPE ACTIVITIES PER EXHIBIT A \$9,489,655

CITY OF SPIRIT LAKE  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006

	Enterprise Funds			
	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
OPERATING REVENUES:				
Charges for services .....	\$1,250,368	\$ 214,391	\$ 837,166	\$2,301,925
Reimbursements from operating funds .....				
Miscellaneous .....	910			910
TOTAL OPERATING REVENUES	<u>1,251,278</u>	<u>214,391</u>	<u>837,166</u>	<u>2,302,835</u>
OPERATING EXPENSES:				
Business type activities:				
Cost of sales and services .....	1,084,369	106,136	608,056	1,798,561
Depreciation .....	207,976	61,462	48,245	317,683
Amortization .....	1,255			1,255
Insurance charges and claims .....				
TOTAL OPERATING EXPENSES	<u>1,293,600</u>	<u>167,598</u>	<u>656,301</u>	<u>2,117,499</u>
OPERATING INCOME (LOSS)	<u>(42,322)</u>	<u>46,793</u>	<u>180,865</u>	<u>185,336</u>
NON-OPERATING REVENUES (EXPENSES):				
Interest income .....	13,555	11,905	10,450	35,910
Interest expense and loan service fees:				
Revenue bond .....	(105,422)			(105,422)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(91,867)</u>	<u>11,905</u>	<u>10,450</u>	<u>(69,512)</u>
NET INCOME (LOSS) BEFORE TRANSFERS	<u>(134,189)</u>	<u>58,698</u>	<u>191,315</u>	<u>115,824</u>
Operating transfers in .....			65,000	65,000
Operating transfers out .....	(26,725)	(16,690)	(26,035)	(69,450)
Capital assets transferred in .....	180,337	117,515		297,852
TOTAL TRANSFERS - NET	<u>153,612</u>	<u>100,825</u>	<u>38,965</u>	<u>293,402</u>
CHANGE IN NET ASSETS	19,423	159,523	230,280	409,226
NET ASSETS - BEGINNING OF YEAR .....	<u>5,103,964</u>	<u>2,868,075</u>	<u>986,431</u>	<u>8,958,470</u>
NET ASSETS - END OF YEAR	<u>\$5,123,387</u>	<u>\$3,027,598</u>	<u>\$1,216,711</u>	<u>\$9,367,696</u>

# EXHIBIT I

Internal Service Funds		
<u>Self-Insurance</u>	<u>Equipment Revolving</u>	<u>Total</u>
\$ 35,850		\$ 35,850
<u>35,850</u>	<u>          </u>	<u>35,850</u>
<u>28,811</u>	<u>          </u>	<u>28,811</u>
<u>28,811</u>	<u>          </u>	<u>28,811</u>
<u>7,039</u>	<u>          </u>	<u>7,039</u>
	\$ 5,943	5,943
<u>          </u>	<u>          </u>	<u>          </u>
<u>          </u>	<u>5,943</u>	<u>5,943</u>
<u>7,039</u>	<u>5,943</u>	<u>12,982</u>
	66,000	66,000
	(72,860)	(72,860)
<u>          </u>	<u>(6,860)</u>	<u>(6,860)</u>
7,039	(917)	6,122
<u>67,008</u>	<u>173,056</u>	<u>240,064</u>
<u>\$ 74,047</u>	<u>\$172,139</u>	<u>\$246,186</u>

CITY OF SPIRIT LAKE  
 RECONCILIATION OF STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN  
 NET ASSETS - PROPRIETARY FUNDS TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2006

TOTAL CHANGE IN NET ASSETS - ENTERPRISE FUNDS PER EXHIBIT I .....	\$409,226
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AMOUNTS REPORTED FOR BUSINESS TYPE ACTIVITIES IN THE  
 STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:

The internal service funds are used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds and to fund future equipment purchases. A portion of the change in net assets of the internal service funds is reported with business type activities.....	<u>7,220</u>
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CHANGE IN NET ASSETS OF BUSINESS TYPE ACTIVITIES PER EXHIBIT B	<u>\$416,446</u>
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CITY OF SPIRIT LAKE  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006

	Enterprise Funds			
	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
CASH FLOWS FROM				
OPERATING ACTIVITIES:				
Cash received from customers .....	\$1,270,192	\$ 205,850	\$ 844,419	\$2,320,461
Other operating receipts .....	910			910
Cash payments from operating funds .....				
Cash payments to employees for services .....	(466,061)	(55,101)	(162,553)	(683,715)
Cash payments for goods and services ....	(682,069)	(51,788)	(456,155)	(1,190,012)
NET CASH PROVIDED BY				
OPERATING ACTIVITIES	<u>122,972</u>	<u>98,961</u>	<u>225,711</u>	<u>447,644</u>
CASH FLOWS FROM NONCAPITAL				
FINANCING ACTIVITIES:				
Loans from (to) other funds .....	36,657	(36,657)		
Operating transfers in .....			65,000	65,000
Operating transfers out .....	(26,725)	(16,690)	(26,035)	(69,450)
NET CASH PROVIDED BY				
(USED FOR) NONCAPITAL				
FINANCING ACTIVITIES	<u>9,932</u>	<u>(53,347)</u>	<u>38,965</u>	<u>(4,450)</u>
CASH FLOWS FROM CAPITAL AND				
RELATED FINANCING ACTIVITIES:				
Acquisition of fixed assets .....	(630,141)	(14,000)	(314,118)	(958,259)
Revenue bond proceeds .....	907			907
Special assessments received .....		6,794		6,794
Principal paid on revenue bond .....	(137,000)			(137,000)
Interest and loan service fees paid				
on revenue bond .....	(105,121)			(105,121)
NET CASH (USED FOR) CAPITAL				
AND RELATED FINANCING				
ACTIVITIES	<u>(871,355)</u>	<u>(7,206)</u>	<u>(314,118)</u>	<u>(1,192,679)</u>
CASH FLOWS FROM INVESTING				
ACTIVITIES:				
Interest on investments .....	13,181	9,918	10,054	33,153
Interest on special assessments .....		1,296		1,296
NET CASH PROVIDED BY				
INVESTING ACTIVITIES	<u>13,181</u>	<u>11,214</u>	<u>10,054</u>	<u>34,449</u>
NET INCREASE (DECREASE) IN CASH				
AND CASH EQUIVALENTS	(725,270)	49,622	(39,388)	(715,036)
CASH AND CASH EQUIVALENTS -				
BEGINNING OF YEAR .....	<u>745,505</u>	<u>554,172</u>	<u>623,017</u>	<u>1,922,694</u>
CASH AND CASH EQUIVALENTS -				
END OF YEAR	<u>\$ 20,235</u>	<u>\$ 603,794</u>	<u>\$ 583,629</u>	<u>\$1,207,658</u>

# EXHIBIT K

Internal Service Funds		
<u>Self-Insurance</u>	<u>Equipment Revolving</u>	<u>Total</u>
\$ 35,850		\$ 35,850
<u>(26,550)</u>	<u>          </u>	<u>(26,550)</u>
<u>9,300</u>	<u>          </u>	<u>9,300</u>
	\$ 66,000	66,000
<u>          </u>	<u>(72,860)</u>	<u>(72,860)</u>
<u>          </u>	<u>(6,860)</u>	<u>(6,860)</u>
<u>          </u>	<u>          </u>	<u>          </u>
<u>          </u>	<u>          </u>	<u>          </u>
	5,401	5,401
<u>          </u>	<u>          </u>	<u>          </u>
<u>          </u>	<u>5,401</u>	<u>5,401</u>
9,300	(1,459)	7,841
<u>68,645</u>	<u>172,925</u>	<u>241,570</u>
<u>\$ 77,945</u>	<u>\$171,466</u>	<u>\$249,411</u>

CITY OF SPIRIT LAKE  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - Continued  
FOR THE YEAR ENDED JUNE 30, 2006

	Enterprise Funds			
	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
OPERATING INCOME (LOSS) .....	<u>\$ (42,322)</u>	<u>\$ 46,793</u>	<u>\$180,865</u>	<u>\$ 185,336</u>
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Depreciation .....	207,976	61,462	48,245	317,683
Amortization .....	1,255			1,255
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable and unbilled usage .....	(51,937)	(8,541)	7,253	(53,225)
(Increase) decrease in inventories .....	3,532		(15,071)	(11,539)
(Increase) decrease in prepaids .....	(9,271)	31	(3,102)	(12,342)
Increase (decrease) in accounts payable	10,649	(1,300)	3,270	12,619
Increase in medical claims payable .....				
Increase in due to other governments ...	372			372
Increase in salaries payable .....	3,622	516	2,453	6,591
(Decrease) in customer deposits .....	(50)			(50)
Increase (decrease) in compensated absences .....	(854)		1,798	944
TOTAL ADJUSTMENTS	<u>165,294</u>	<u>52,168</u>	<u>44,846</u>	<u>262,308</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$122,972</u>	<u>\$ 98,961</u>	<u>\$225,711</u>	<u>\$ 447,644</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON THE STATEMENT OF NET ASSETS				
Cash and pooled investments .....		\$603,794	\$583,629	\$1,187,423
Restricted assets - cash:				
Customer deposits .....	<u>\$ 20,235</u>			<u>20,235</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 20,235</u>	<u>\$603,794</u>	<u>\$583,629</u>	<u>\$1,207,658</u>
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:				
Two water and three sewer projects were paid by a governmental fund type and transferred to the enterprise funds.				
Cost transferred in. ....	<u>\$180,337</u>	<u>\$117,515</u>	<u>\$</u>	<u>\$ 297,852</u>

# EXHIBIT K

Internal Service Funds		
<u>Self-Insurance</u>	<u>Equipment Revolving</u>	<u>Total</u>
<u>\$ 7,039</u>	<u>          </u>	<u>\$ 7,039</u>
2,261		2,261
<u>2,261</u>	<u>          </u>	<u>2,261</u>
<u>\$ 9,300</u>	<u>\$</u>	<u>\$ 9,300</u>
\$ 77,945	\$171,466	\$249,411
<u>          </u>	<u>          </u>	<u>          </u>
<u>\$ 77,945</u>	<u>\$171,466</u>	<u>\$249,411</u>
<u>\$</u>	<u>\$</u>	<u>\$</u>

CITY OF SPIRIT LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Spirit Lake, Iowa is a political subdivision of the State of Iowa located in Dickinson County. It was first incorporated in 1879 and operates under the Home Rule provisions of the constitution of Iowa. The City operates under the Mayor-Council-Clerk/Administrator form of government with the Mayor and Council Members elected on a non-partisan basis. The City of Spirit Lake provides numerous services to citizens, including general government, public safety, streets, sanitation and health, cultural and park facilities and social services. It also operates the water, sewer, and solid waste utilities.

The financial statements of the City of Spirit Lake have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

**A. Reporting Entity**

For financial reporting purposes, the City has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. It was determined that the City has no component units.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Drainage District #22, Spirit Lake Community Fire Department, Dickinson County Airport Authority, Dickinson County Emergency Management Commission, Dickinson County E911 Service Board, Dickinson County Assessor's Conference Board, and various other organizations.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Net Assets presents the City's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Additionally, the City has reported economic development loans as restricted net assets.

*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

*The General Fund* is the general operating fund of the City. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges, and the capital improvement costs not paid from other funds.

*Special Revenue:*

*The Tax Increment Financing Revenues Fund* is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

*The Local Option Sales Tax Fund* - is used to account for the revenues from the tax authorized by referendum and used for property tax relief and capital improvements.

*The Debt Service Fund* is used to account for the payment of interest and principal on the City's general long-term debt.

*The Capital Projects Fund* is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

*Enterprise:*

*The Water Fund* is used to account for the operation and maintenance of the City's water system.

*The Sewer Fund* is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

*The Solid Waste Fund* is used to account for the operation and maintenance of the City's solid waste collection activities.

Additionally, the City reports the following funds:

*Proprietary Funds* - The Internal Service Funds are utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

**C. Measurement Focus and Basis of Accounting**

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants, and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

The proprietary funds of the City apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting

Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Proprietary Funds are charges to customers for sales and services. Operating expenses for Proprietary Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

#### **D. Assets, Liabilities and Fund Equity**

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments, and Cash Equivalents - The cash balances of most City funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law. Investments consist of interest-bearing cash accounts and certificates of deposit.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents.

Property Tax Receivable, Including Tax Increment Financing - Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivables represent taxes collected by the County but not remitted to the City at June 30, 2006 and unpaid taxes. The succeeding year property tax receivables represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivables have been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2005.

Accounts and Unbilled Usage Receivable - Accounts receivable are recorded in the enterprise funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.



Special Assessments Receivable - Special assessments receivable represents the amounts due from individuals for work done which benefits their property. These assessments are payable by individuals in not less than ten nor more than twenty annual installments. Each annual installment with interest on the unpaid balance is due on September 30 and is subject to the same interest and penalties as other tax.

Due From Other Governments - Due from other governments represents various shared revenues, grants, and reimbursements due from other governments. Shared revenues are recognized during the period received by the collecting authority, the State of Iowa.

Inventories - Proprietary Fund inventories of materials and supplies are valued at cost, using the first-in, first-out (FIFO) method. Inventories in the governmental funds are stated at cost and are recorded as an expenditure at the time of purchase. Reported inventories in the governmental funds are equally offset by a fund balance reserve, which indicates they are unavailable for appropriation.

Prepaid Expenses - Prepaid expenses have been recorded for governmental and proprietary funds. Prepaid expenses in the governmental funds have been offset by a fund balance reserve to indicate they are unavailable for appropriation.

Restricted Assets - Restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Capital Assets - Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the government) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of \$5,000 and estimated useful lives in excess of four years.

Capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	40 - 60 years
Improvements other than buildings	10 - 40 years
Vehicles	5 - 10 years
Equipment	5 - 20 years
Infrastructure	15 - 40 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of delinquent property tax receivables, special assessments receivable, and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivables that will not be recognized as revenue until the year for which they are levied.

Compensated Absences - City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Assets and the proprietary fund Statement of Net Assets.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## **2. CASH AND INVESTMENTS**

The City's demand deposits, savings accounts, and certificates of deposit at June 30, 2006 were entirely covered by Federal depository insurance or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the members of the pool to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

### 3. DUE FROM AND DUE TO OTHER FUNDS

The details of interfund receivables and payables at June 30, 2006 are as follows:

<u>Due to Fund</u>	<u>Due from Fund</u>	<u>Amount</u>
General	Special Revenue:	
	Local option sales tax	\$ 261,139
	Tax increment financing	87,639
	Proprietary:	
	Enterprise:	
	Water	11,385
	Sewer	5,769
		<u>365,932</u>
Special Revenue:		
Local option sales tax	General	<u>168,451</u>
Special Revenue:		
Tax increment financing	Debt Service	109,441
	Capital Projects	821,263
		<u>930,704</u>
Debt Service	Special Revenue:	
	Local option sales tax	<u>78,541</u>
Proprietary:	Proprietary:	
Enterprise:	Enterprise:	
Sewer	Water	<u>36,657</u>
TOTALS		<u>\$1,580,285</u>

The balances result from interfund loans to finance projects and errors made on transfers to the debt service fund.

### 4. ALLOWANCES FOR COLLECTION LOSSES

Allowances have been made for estimated collection losses on the following receivable amounts:

	<u>Gross Receivables</u>	<u>Allowance for Collection Losses</u>	<u>Net Receivables</u>
Accounts and unbilled usage:			
General Fund .....	\$ 7,962	\$ 40	\$ 7,922
Enterprise Funds:			
Water .....	198,645	2,152	196,493
Sewer .....	33,261		33,261
Solid waste .....	<u>33,561</u>	<u>4,662</u>	<u>28,899</u>
TOTAL	<u>\$273,429</u>	<u>\$ 6,854</u>	<u>\$266,575</u>

## 5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance Beginning of Year	Additions	Deletions	Transfers In (Out)	Balance End of Year
GOVERNMENTAL ACTIVITIES:					
COST OF CAPITAL ASSETS:					
Capital assets not being depreciated:					
Construction in progress .....	\$ 4,921,859	\$ (169,694)			\$ 4,752,165
Land .....	302,181	110,722			412,903
Total capital assets not being depreciated	5,224,040	(58,972)			5,165,068
Capital assets being depreciated					
Buildings .....	1,310,287	167,648			1,477,935
Improvements .....	404,218				404,218
Equipment and vehicles .....	2,403,223	367,713	\$ (41,934)		2,729,002
Infrastructure .....	19,413,460	5,176,384		\$(297,852)	24,291,992
Total capital assets being depreciated	23,531,188	5,711,745	(41,934)	(297,852)	28,903,147
TOTAL COST OF CAPITAL ASSETS	28,755,228	5,652,773	(41,934)	(297,852)	34,068,215
ACCUMULATED DEPRECIATION:					
Buildings .....	366,152	29,695			395,847
Improvements .....	256,752	9,374			266,126
Equipment and vehicles .....	1,040,150	201,287	(41,934)		1,199,503
Infrastructure .....	2,624,887	446,697			3,071,584
TOTAL ACCUMULATED DEPRECIATION	4,287,941	687,053	(41,934)		4,933,060
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS - NET	\$24,467,287	\$4,965,720	\$	\$(297,852)	\$29,135,155

	Balance Beginning of Year	Additions	Deletions	Transfers In (Out)	Balance End of Year
BUSINESS TYPE ACTIVITIES:					
COST OF CAPITAL ASSETS:					
Capital assets not being depreciated:					
Construction in progress ....	\$ 5,837	\$ 637,523			\$ 643,360
Land .....	96,859				96,859
Total capital assets not being depreciated	102,696	637,523			740,219
Capital assets being depreciated:					
Buildings .....	5,660,569	40,328			5,700,897
Improvements .....	113,651				113,651
Water towers .....	891,356				891,356
Equipment and vehicles ....	1,125,908	332,643			1,458,551
Infrastructure .....	5,039,519	17,966		\$297,852	5,355,337
Total capital assets being depreciated	12,831,003	390,937		297,852	13,519,792
TOTAL COST OF CAPITAL ASSETS	12,933,699	1,028,460		297,852	14,260,011
ACCUMULATED DEPRECIATION:					
Buildings .....	1,031,731	111,315			1,143,046
Improvements .....	93,878	1,696			95,574
Water towers .....	322,691	17,827			340,518
Equipment and vehicles .....	556,928	82,800			639,728
Infrastructure .....	810,974	104,045			915,019
TOTAL ACCUMULATED DEPRECIATION	2,816,202	317,683			3,133,885
BUSINESS TYPE CAPITAL ASSETS - NET	<u>\$10,117,497</u>	<u>\$ 710,777</u>	<u>\$</u>	<u>\$297,852</u>	<u>\$11,126,126</u>
COST OF LOAN FEES .....	\$ 37,640				\$ 37,640
LESS: Accumulated amortization	2,509	\$ 1,255			3,764
LOAN FEES - NET	<u>\$ 35,131</u>	<u>\$ (1,255)</u>	<u>\$</u>	<u>\$</u>	<u>\$ 33,876</u>

Depreciation was charged to functions of the government as follows:

Governmental Activities:

Public safety .....	\$ 42,243
Public works .....	540,689
Culture and recreation .....	99,663
General government .....	4,458
Total Governmental Activities	<u>\$ 687,053</u>

Business Type Activities:

Water .....	207,976
Sewer .....	61,462
Solid waste .....	48,245
Total Business Type Activities	<u>\$ 317,683</u>

**6. ECONOMIC DEVELOPMENT LOANS**

The City has loaned money for economic development purposes. Following is a summary of these loans:

Forgivable loan to a local business. The loan is interest free and is forgivable ratably over 10 years if certain conditions are met. During the year ended June 30, 2006, the City forgave \$40,000 of this loan. .... \$120,000

Forgivable loan to a local business. The loan is interest-free and forgivable ratably over five years if certain conditions are met. During the year ended June 30, 2006, the City forgave \$6,000 of this loan. .... 13,000

Iowa Nonentitlement Community Development Block Grant. Economic Development set aside loan to a local business. The loan is interest-free and is payable in quarterly installments of \$12,500 over a five-year period. .... 200,000

TOTAL \$333,000

## 7. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Final Due Date</u>
GOVERNMENTAL ACTIVITIES:				
GENERAL OBLIGATION BONDS/NOTES:				
Fire station building .....	10-1-95		\$ 400,000	
Taxable issue .....	9-1-99	7.00 - 7.50%	400,000	6-1-2011
General obligation urban renewal, Series 2001A .....	10-1-01	3.65 - 4.00%	4,000,000	6-1-2012
General obligation bonds, Series 2001B	10-1-01	3.80 - 4.40%	470,000	6-1-2012
General obligation refunding bonds ...	6-1-02	3.50 - 4.35%	3,060,000	6-1-2012
Essential corporate purpose .....	6-1-03	3.55 - 4.00%	4,200,000	6-1-2023
General obligation capital loan notes .	10-1-04	2.50 - 4.45%	2,280,000	6-1-2024
General obligation refunding bonds ...	4-1-05	2.60 - 3.35%	1,145,000	6-1-2012
General obligation annual appropriation bonds .....	8-1-05	3.50 - 4.35%	5,000,000	6-1-2025
TOTAL				
Less unamortized bond discount .....				
NET GENERAL OBLIGATION BONDS/NOTES				
LOCAL OPTION SALES TAX				
REVENUE BONDS .....	3-23-06	4.40%	1,000,000	6-1-2016
COMPENSATED ABSENCES .....				
TOTAL GOVERNMENTAL ACTIVITIES				
BUSINESS TYPE ACTIVITIES:				
REVENUE NOTES:				
Water revenue capital loan notes, Series 2003 .....	5-20-03	3.25%	3,501,000	6-1-2023
COMPENSATED ABSENCES .....				
TOTAL BUSINESS TYPE ACTIVITIES				

Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
\$ 30,000		\$ 30,000		
265,000		40,000	\$ 225,000	\$ 40,000
2,750,000		575,000	2,175,000	625,000
265,000		35,000	230,000	35,000
1,615,000		275,000	1,340,000	275,000
4,200,000			4,200,000	
2,280,000		35,000	2,245,000	95,000
1,145,000		175,000	970,000	170,000
	<u>\$5,000,000</u>		<u>5,000,000</u>	
12,550,000	5,000,000	1,165,000	16,385,000	1,240,000
<u>(40,300)</u>	<u>(65,000)</u>	<u>(5,935)</u>	<u>(99,365)</u>	
12,509,700	4,935,000	1,159,065	16,285,635	1,240,000
	1,000,000		1,000,000	
<u>47,721</u>	<u>12,475</u>		<u>60,196</u>	<u>60,196</u>
<u>\$12,557,421</u>	<u>\$5,947,475</u>	<u>\$1,159,065</u>	<u>\$17,345,831</u>	<u>\$1,300,196</u>
\$ 3,216,093	\$ 907	\$ 137,000	\$ 3,080,000	\$ 142,000
<u>29,053</u>	<u>944</u>		<u>29,997</u>	<u>29,997</u>
<u>\$ 3,245,146</u>	<u>\$ 1,851</u>	<u>\$ 137,000</u>	<u>\$3,109,997</u>	<u>\$ 171,997</u>



**General Obligation Bonds/Notes**

General obligation bonds/notes to be serviced by the Debt Service Fund totaled \$16,385,000 at June 30, 2006.

A majority of the general obligation bonds are anticipated to be repaid from tax increment financing revenues and local option sales tax funds. In compliance with statutory requirements, any payments from other funds are recorded as reimbursements to the Debt Service Fund in the City's accounting records. General obligation bonds/notes bear interest with rates ranging from 2.50% to 7.5%.

Subsequent to June 30, 2006, the City issued \$4,300,000 of general obligation urban renewal annual appropriation bonds. During June 2006, the City received a good faith deposit on the bonds for \$43,000 which is shown as a liability on the Statement of Net Assets.

**Revenue Notes**

The City has water revenue capital loan notes issued under a loan agreement between the City of Spirit Lake, the Iowa Finance Authority, the Iowa Department of Natural Resources, and Wells Fargo Bank Iowa, N.A. The notes bear interest at 3.25% including a .25% loan service fee.

The resolution providing for the issuance of the water revenue capital loan notes include the following provisions:

- (A) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (B) Sufficient monthly transfers shall be made into a separate water revenue sinking account for the purpose of making the principal and interest payments when due.
- (C) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the note falling due in the same year.

During the year ended June 30, 2006, the City did not establish the sinking fund and the net revenues of the water fund did not meet the 110% test as required by the resolution.

**Stamped Warrants**

During July 2005, the City issued \$744,471 of stamped warrants to pay for a construction project. The stamped warrants were redeemed in August 2005, plus interest of \$2,616.

A summary of the City's long-term debt maturities is as follows:

Governmental Activities

Year Ending June 30,	General Obligation Bonds/Notes			Local Option Sales Tax Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$1,240,000	\$ 629,035	\$1,869,035		\$ 52,189	\$ 52,189
2008	1,085,000	585,673	1,670,673		44,000	44,000
2009	1,075,000	546,393	1,621,393		44,000	44,000
2010	1,100,000	506,388	1,606,388		44,000	44,000
2011	1,110,000	464,413	1,574,413		44,000	44,000
2012	1,275,000	420,653	1,695,653		44,000	44,000
2013	785,000	372,585	1,157,585		44,000	44,000
2014	760,000	344,464	1,104,464		44,000	44,000
2015	765,000	316,880	1,081,880	\$ 500,000	44,000	544,000
2016	770,000	288,872	1,058,872	500,000	22,000	522,000
2017	770,000	260,250	1,030,250			
2018	775,000	231,137	1,006,137			
2019	785,000	201,118	986,118			
2020	790,000	170,234	960,234			
2021	795,000	138,540	933,540			
2022	800,000	106,022	906,022			
2023	805,000	72,890	877,890			
2024	535,000	39,138	574,138			
2025	365,000	15,878	380,878			
Total	<u>\$16,385,000</u>	<u>\$5,710,563</u>	<u>\$22,095,563</u>	<u>\$1,000,000</u>	<u>\$ 426,189</u>	<u>\$1,426,189</u>

Year Ending June 30,	Total Governmental Activities			Business Type Activities Water Revenue Capital Loan Notes		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$1,240,000	\$ 681,224	\$1,921,224	\$ 142,000	\$ 100,100	\$ 242,100
2008	1,085,000	629,673	1,714,673	146,000	95,485	241,485
2009	1,075,000	590,393	1,665,393	150,000	90,740	240,740
2010	1,100,000	550,388	1,650,388	155,000	85,865	240,865
2011	1,110,000	508,413	1,618,413	159,000	80,827	239,827
2012	1,275,000	464,653	1,739,653	164,000	75,660	239,660
2013	785,000	416,585	1,201,585	169,000	70,330	239,330
2014	760,000	388,464	1,148,464	174,000	64,838	238,838
2015	1,265,000	360,880	1,625,880	179,000	59,182	238,182
2016	1,270,000	310,872	1,580,872	185,000	53,365	238,365
2017	770,000	260,250	1,030,250	190,000	47,353	237,353
2018	775,000	231,137	1,006,137	196,000	41,178	237,178
2019	785,000	201,118	986,118	202,000	34,807	236,807
2020	790,000	170,234	960,234	208,000	28,243	236,243
2021	795,000	138,540	933,540	214,000	21,483	235,483
2022	800,000	106,022	906,022	220,000	14,527	234,527
2023	805,000	72,890	877,890	227,000	7,377	234,377
2024	535,000	39,138	574,138			
2025	365,000	15,878	380,878			
Total	<u>\$17,385,000</u>	<u>\$6,136,752</u>	<u>\$23,521,752</u>	<u>\$3,080,000</u>	<u>\$ 971,360</u>	<u>\$4,051,360</u>

## 8. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local option sales tax	\$ 644,649
	Tax increment financing	100,000
	Capital Projects	109,935
	Proprietary:	
	Enterprise:	
	Water	1,725
	Sewer	690
	Solid waste	1,035
	Internal Service:	
	Equipment revolving	7,860
		<u>865,894</u>
Debt Service	Special Revenue:	
	Local option sales tax	225,926
	Tax increment financing	<u>1,609,895</u>
		<u>1,835,821</u>
Capital Projects	Special Revenue:	
	Tax increment financing	<u>4,289,654</u>
Proprietary:	Proprietary:	
Enterprise:	Internal service:	
Solid Waste	Equipment revolving	<u>65,000</u>
Proprietary:	Proprietary:	
Internal service:	Enterprise:	
Equipment revolving	Water	25,000
	Sewer	16,000
	Solid waste	<u>25,000</u>
		<u>66,000</u>
TOTAL OPERATING TRANSFERS		<u>\$7,122,369</u>

## 9. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, IA 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered salaries. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$112,427, \$99,435, and \$95,005, respectively, equal to the required contributions for each year.

## 10. OTHER EMPLOYEE BENEFITS

All full-time City employees accumulate sick leave hours for subsequent use. Except for a portion that is paid annually, the accumulation of sick leave hours did not vest as of June 30, 2006, and therefore is not recognized as a liability until used by the employee or upon retirement or death. The City's approximate contingent liability for the unvested sick leave as of June 30, 2006 is as follows:

Governmental activities .....	\$243,463
Business type activities .....	<u>127,416</u>
 TOTAL	 <u>\$370,879</u>

## 11. INDUSTRIAL DEVELOPMENT REVENUE BONDS

The City has issued a total of \$1,000,000 of industrial development revenue bonds, of which \$727,639 is outstanding at June 30, 2006. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

## 12. DEFICIT BALANCES

At June 30, 2006, the general fund had an undesignated deficit balance of \$363,981. The City is in the process of finding a solution to the problem. The City did not request the maximum amount of tax increment financing (TIF) revenues for fiscal year ending June 30, 2007. It is the intention of the City not to request the maximum amount of TIF for years ending after June 30, 2008. This will result in more property tax revenues for the general fund. The proposed budget for fiscal year ending June 30, 2008 requests an increase in the employee benefits levy and also requests an emergency levy. The City also hopes to change the local option sales tax referendum to allow the 60%, which is now allocated to capital improvements, to be allocated to the general fund. The City believes these actions, in addition to controlling expenditures and a general increase in property tax valuations, will eliminate the deficit.

The capital projects fund had a deficit balance of \$3,724,580 at June 30, 2006. The deficit will be eliminated from the proceeds of a bond issue and transfers from other funds.

## 13. COMMITMENTS

The City has entered into several contracts for a water tower, paving projects, and other infrastructure projects. A summary of the uncompleted projects is as follows:

Contract total .....	\$6,376,683
Completed at June 30, 2006 .....	<u>665,675</u>
 Uncompleted	 <u>\$5,711,008</u>

The City has committed funds to several nonprofit organizations, including \$100,000 per year for ten years for a new YMCA. No contracts have been signed. The City will report the expenditures in the year payments are made.

#### **14. SUBSEQUENT EVENTS**

Subsequent to June 30, 2006, the City entered into a construction contract for street lighting of \$636,297 and a material only contract for utility improvements totaling \$421,605.

The City also issued \$4,300,000 of general obligation urban renewal annual appropriation bonds on July 7, 2006 and \$2,397,000 of general obligation capital loan notes in November 2006.

The City Clerk/Administrator/Treasurer signed an early retirement agreement on August 22, 2006. The employee's final working day was September 29, 2006. Under the terms of the agreement, the employee was paid his ordinary salary through the end of 2006. The agreement also calls for various other payments payable in 2007, including a lump sum payment equal to four months salary, accrued vacation pay through December 31, 2006, and paying the cost of the employee's medical and dental insurance through June 30, 2007.

The City hired a new City Clerk/Administrator/Treasurer in January 2007.

#### **15. SIGNIFICANT GROUP CONCENTRATION OF CREDIT RISK**

In the course of selling water and sewer services, the City grants credit to customers, all of whom are local residents.

#### **16. RISK MANAGEMENT**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 531 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each members' annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2006 were \$90,424.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City has established a partial self-insurance health insurance fund (an internal service fund) to account for group insurance risks. The City has agreed to pay a portion of the employees' deductible.

The claims liability of \$3,898 reported in the fund at June 30, 2006 is based on claims reported but unpaid and estimated claims incurred but not reported as of June 30, 2006. Changes in the balances of claims liability during the year are as follows:

Unpaid claims - June 30, 2005 .....	\$ 1,637
Incurred claims .....	28,811
Less claims paid .....	<u>(26,550)</u>
Unpaid claims - June 30, 2006 .....	<u>\$ 3,898</u>

The City has workmen's compensation coverage through the Iowa Municipalities Workers' Compensation Association. In addition, the City purchases employee blanket bond coverage from other insurers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## 17. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## 18. RESTATEMENT TO BEGINNING FUND BALANCES

During the year ended June 30, 2006, the City discovered that an economic development loans fund was reported as a special revenue fund in error. The fund should have been reported with the general fund since the revenues are not required to be reported in another fund. The change to the beginning fund balances is as follows:

	General Fund	Economic Development Loans Fund
Fund balance as previously reported .....	\$(307,596)	\$542,007
Restatement July 1, 2005 .....	<u>542,007</u>	<u>(542,007)</u>
Fund balance - beginning of year, as restated	<u>\$ 234,411</u>	<u>\$ 0</u>

## REQUIRED SUPPLEMENTARY INFORMATION



CITY OF SPIRIT LAKE  
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -  
GOVERNMENTAL AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2006

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Total <u>Actual</u>
<b>RECEIPTS:</b>			
Property taxes .....	\$1,122,643		\$ 1,122,643
Other city taxes .....	824,994		824,994
Tax increment financing revenues .....	2,166,498		2,166,498
Licenses and permits .....	131,656		131,656
Use of money and property .....	162,288	\$ 38,554	200,842
Intergovernmental .....	453,555		453,555
Charges for services .....	15,668	2,351,662	2,367,330
Special assessments .....		8,090	8,090
Miscellaneous .....	206,945	5,559	212,504
<b>TOTAL RECEIPTS</b>	<u>5,084,247</u>	<u>2,403,865</u>	<u>7,488,112</u>
<b>DISBURSEMENTS:</b>			
Program:			
Public safety .....	854,618		854,618
Public works .....	849,778		849,778
Culture and recreation .....	663,020		663,020
Community and economic development .....	345,995		345,995
General government .....	451,180		451,180
Debt service .....	1,879,818		1,879,818
Capital projects .....	2,995,488		2,995,488
Business type .....		3,074,107	3,074,107
Non-program .....		26,550	26,550
<b>TOTAL DISBURSEMENTS</b>	<u>8,039,897</u>	<u>3,100,657</u>	<u>11,140,554</u>
<b>EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	<u>(2,955,650)</u>	<u>(696,792)</u>	<u>(3,652,442)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfer in .....	6,731,377	131,000	6,862,377
Operating transfer out .....	(6,720,067)	(142,310)	(6,862,377)
Bond proceeds - net .....	5,978,000		5,978,000
Loan proceeds .....		907	907
Sale of fixed assets .....	56,000		56,000
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>6,045,310</u>	<u>(10,403)</u>	<u>6,034,907</u>
<b>EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES (USES) OVER (UNDER) DISBURSEMENTS</b>	<u>3,089,660</u>	<u>(707,195)</u>	<u>2,382,465</u>
<b>BALANCE - BEGINNING OF YEAR</b> .....	<u>(1,767,657)</u>	<u>2,164,264</u>	<u>396,607</u>
<b>BALANCE - END OF YEAR</b>	<u>\$1,322,003</u>	<u>\$1,457,069</u>	<u>\$ 2,779,072</u>

Less Funds Not Required to be <u>Budgeted</u>	<u>Net Actual</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Final to Actual Variance</u>
	\$ 1,122,643	\$1,110,715	\$ 1,110,715	\$ 11,928
	824,994	812,945	812,945	12,049
	2,166,498	1,899,417	1,899,417	267,081
	131,656	119,100	119,100	12,556
\$ 5,401	195,441	14,300	14,300	181,141
	453,555	532,784	492,784	(39,229)
35,850	2,331,480	2,343,330	2,343,330	(11,850)
	8,090	18,740	18,740	(10,650)
	212,504	101,200	168,093	44,411
<u>41,251</u>	<u>7,446,861</u>	<u>6,952,531</u>	<u>6,979,424</u>	<u>467,437</u>
	854,618	750,767	900,767	46,149
	849,778	728,885	978,885	129,107
	663,020	417,250	587,250	(75,770)
	345,995		35,000	(310,995)
	451,180	468,822	468,822	17,642
	1,879,818	1,702,334	1,947,334	67,516
	2,995,488	130,000	4,737,901	1,742,413
	3,074,107	3,199,866	3,199,866	125,759
<u>26,550</u>				
<u>26,550</u>	<u>11,114,004</u>	<u>7,397,924</u>	<u>12,855,825</u>	<u>1,741,821</u>
<u>14,701</u>	<u>(3,667,143)</u>	<u>(445,393)</u>	<u>(5,876,401)</u>	<u>2,209,258</u>
66,000	6,796,377	2,292,622	6,605,670	190,707
(72,860)	(6,789,517)	(2,292,622)	(6,605,670)	(183,847)
	5,978,000		6,000,000	(22,000)
	907	700,000	700,000	(699,093)
	<u>56,000</u>			<u>56,000</u>
<u>(6,860)</u>	<u>6,041,767</u>	<u>700,000</u>	<u>6,700,000</u>	<u>(658,233)</u>
7,841	2,374,624	254,607	823,599	1,551,025
<u>241,570</u>	<u>155,037</u>	<u>52,186</u>	<u>52,186</u>	<u>102,851</u>
<u>\$249,411</u>	<u>\$ 2,529,661</u>	<u>\$ 306,793</u>	<u>\$ 875,785</u>	<u>\$1,653,876</u>

CITY OF SPIRIT LAKE  
BUDGET TO GAAP RECONCILIATION  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Governmental Funds</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Modified Accrual Basis</u>
REVENUES .....	\$5,084,247	\$ 57,831	\$ 5,142,078
EXPENDITURES/EXPENSES .....	<u>8,039,897</u>	<u>2,341,432</u>	<u>10,381,329</u>
NET	(2,955,650)	(2,283,601)	(5,239,251)
OTHER FINANCING SOURCES (USES) - NET ...	6,045,310		6,045,310
BEGINNING FUND BALANCES/NET ASSETS ....	(1,767,657)	(441,387)	(2,209,044)
NET INCREASE IN RESERVES FOR PREPAID EXPENSES AND INVENTORIES .....	<u>          </u>	<u>22,745</u>	<u>22,745</u>
ENDING FUND BALANCES/NET ASSETS	<u>\$1,322,003</u>	<u>\$(2,702,243)</u>	<u>\$ (1,380,240)</u>

Proprietary Funds

<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
\$2,403,865	\$ (23,327)	\$2,380,538
<u>3,100,657</u>	<u>(848,925)</u>	<u>2,251,732</u>
(696,792)	825,598	128,806
(10,403)	296,945	286,542
2,164,264	7,034,270	9,198,534
<hr/>	<hr/>	<hr/>
<u>\$1,457,069</u>	<u>\$8,156,813</u>	<u>\$9,613,882</u>

CITY OF SPIRIT LAKE  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
FOR THE YEAR ENDED JUNE 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business-type activities. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds, and enterprise funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$5,457,901. This budget amendment is reflected in the final budgeted amounts.

During the year, disbursements exceeded budgeted amounts in the culture and recreation and community and economic development functions.

## OTHER SUPPLEMENTARY INFORMATION

CITY OF SPIRIT LAKE  
COMBINING BALANCE SHEET  
ALL NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2006

	Special Revenue Funds			Total
	Road Use Tax	Employee Benefits	Friends of the Library	
ASSETS:				
Cash and pooled investments .....	\$ 6,479	\$ 6,469	\$ 43,473	\$ 56,421
Receivables:				
Property tax:				
Delinquent .....		3,056		3,056
Succeeding year .....		295,778		295,778
Accrued interest .....			169	169
Due from other governments .....	<u>27,867</u>	<u>          </u>	<u>          </u>	<u>27,867</u>
 TOTAL ASSETS	 <u>\$ 34,346</u>	 <u>\$305,303</u>	 <u>\$ 43,642</u>	 <u>\$383,291</u>
 LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable .....	\$ 5,460		\$ 2,906	\$ 8,366
Salaries payable .....		\$ 6,668		6,668
Deferred revenue:				
Succeeding year property tax .....		295,778		295,778
TOTAL LIABILITIES	<u>5,460</u>	<u>302,446</u>	<u>2,906</u>	<u>310,812</u>
 FUND BALANCES:				
Undesignated:				
Reported in special revenue funds .....	<u>28,886</u>	<u>2,857</u>	<u>40,736</u>	<u>72,479</u>
TOTAL FUND BALANCES	<u>28,886</u>	<u>2,857</u>	<u>40,736</u>	<u>72,479</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u>\$ 34,346</u>	 <u>\$305,303</u>	 <u>\$ 43,642</u>	 <u>\$383,291</u>

CITY OF SPIRIT LAKE  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCES  
 ALL NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue Funds			
	Road Use Tax	Employee Benefits	Friends of the Library	Total
REVENUES:				
Property taxes .....		\$248,309		\$248,309
Use of money and property .....			\$ 1,612	1,612
Intergovernmental .....	\$357,898		7,676	365,574
Miscellaneous .....			21,775	21,775
TOTAL REVENUES	<u>357,898</u>	<u>248,309</u>	<u>31,063</u>	<u>637,270</u>
EXPENDITURES:				
Public safety .....		148,062		148,062
Public works .....	345,101	35,926		381,027
Culture and recreation .....		57,271	44,777	102,048
General government .....		11,487		11,487
TOTAL EXPENDITURES	<u>345,101</u>	<u>252,746</u>	<u>44,777</u>	<u>642,624</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	12,797	(4,437)	(13,714)	(5,354)
FUND BALANCES - BEGINNING OF YEAR	<u>16,089</u>	<u>7,294</u>	<u>54,450</u>	<u>77,833</u>
FUND BALANCES - END OF YEAR	<u>\$ 28,886</u>	<u>\$ 2,857</u>	<u>\$ 40,736</u>	<u>\$ 72,479</u>



CITY OF SPIRIT LAKE  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -  
 ALL GOVERNMENTAL FUNDS  
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
REVENUES:				
Property tax .....	\$ 1,129,537	\$ 843,981	\$1,142,851	\$1,121,172
Tax increment financing .....	2,172,594	1,731,352	1,391,242	1,263,945
Other city taxes .....	826,485	891,781	805,299	832,532
Licenses and permits .....	131,435	108,201	97,195	96,478
Use of money and property .....	97,431	20,284	31,565	34,047
Intergovernmental .....	454,263	859,592	1,223,829	1,243,783
Charges for services .....	121,608	18,413	17,015	9,877
Miscellaneous .....	<u>208,725</u>	<u>443,630</u>	<u>258,407</u>	<u>169,736</u>
 TOTAL REVENUES	 <u>\$ 5,142,078</u>	 <u>\$ 4,917,234</u>	 <u>\$4,967,403</u>	 <u>\$4,771,570</u>
 EXPENDITURES:				
Public safety .....	\$ 859,905	\$ 778,099	\$ 905,311	\$ 746,943
Public works .....	1,100,480	699,150	656,959	803,296
Culture and recreation .....	649,885	404,370	340,008	383,586
Community and economic development .....	485,132	287,054	649,057	347,419
General government .....	363,725	308,252	317,372	268,030
Debt service .....	1,879,487	4,922,135	1,562,485	1,413,144
Capital projects .....	<u>5,042,715</u>	<u>3,701,608</u>	<u>4,212,887</u>	<u>3,161,707</u>
 TOTAL EXPENDITURES	 <u>\$10,381,329</u>	 <u>\$11,100,668</u>	 <u>\$8,644,079</u>	 <u>\$7,124,125</u>

**WINTHER, STAVE & Co., LLP**  
*Certified Public Accountants*

1316 West 18th Street  
P.O. Box 175  
Spencer, Iowa 51301-0175  
Phone 712-262-3117  
FAX 712-262-3159

1004 21st Street #4  
P.O. Box 187  
Milford, Iowa 51351  
Phone 712-338-2488  
FAX 712-338-2510

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and  
Members of the City Council  
City of Spirit Lake  
Spirit Lake, IA 51360

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Spirit Lake, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 24, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial

reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

### **Compliance**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Spirit Lake, and other parties to whom the City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in cursive script, reading "Winter, Steve C Lott".

January 24, 2007

CITY OF SPIRIT LAKE  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2006

**Part I: Findings Related to the General Purpose Financial Statements**

I-A-06    Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted, because of the limited number of employees, there are times when employees are performing duties which are not compatible.

Recommendation - We realize that with a limited number of office employees segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The City will continue to review its control procedures.

Conclusion - Response accepted.

I-B-06    IRC Section 457 Plans - The City has three 457 plans. It appears that the plan documents have not been updated for recent Internal Revenue Code changes.

Recommendation - We recommend the City hire a consultant familiar with 457 plans to review and update the plan documents, if required.

Response - The City will follow this recommendation.

Conclusion - Response accepted.

CITY OF SPIRIT LAKE  
SCHEDULE OF FINDINGS - Continued  
FOR THE YEAR ENDED JUNE 30, 2006

**Part II: Other Findings Related to Required Statutory Reporting**

- II-A-06 Certified Budget - We noted that disbursements in the culture and recreation and community and economic development functions exceeded the amended budgeted amounts. In addition, we noted that disbursements in the capital projects function exceeded the original budgeted amounts before the budget was amended. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - In the future, we will amend the budget prior to allowing disbursements to exceed budgeted amounts, if applicable.

Conclusion - Response accepted.

- II-B-06 Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-06 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

- II-D-06 Business Transactions - No business transactions between the City and City officials or employees were noted.

- II-E-06 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-06 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

- II-G-06 Revenue Bonds/Notes - The City has not established the sinking fund and the net revenues of the water fund were less than 110% of the principal and interest due in the year as required by the water revenue note resolution.

Recommendation - We recommend the City establish the sinking fund and make the required transfers. In addition, the City should make changes in rates or expenditures to insure that the net revenues meet the 110% test required by the resolution.

CITY OF SPIRIT LAKE  
SCHEDULE OF FINDINGS - Continued  
FOR THE YEAR ENDED JUNE 30, 2006

**Part II: Other Findings Related to Required Statutory Reporting** - Continued

Response - The City established and funded the sinking fund in October 2006. The City has increased water rates effective July 1, 2006 and another increase will be effective July 1, 2007.

Conclusion - Response accepted.

- II-H-06 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

- II-I-06 Financial Condition - The general fund had an undesignated deficit balance of \$363,981 at June 30, 2006.

Recommendation - The City needs to investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response - The City is in the process of finding a solution to the problem. The City did not request the maximum amount of tax increment financing (TIF) revenues for fiscal year ending June 30, 2007. It is the intention of the City not to request the maximum amount of TIF for years ending after June 30, 2008. This will result in more property tax revenues for the general fund. The proposed budget for fiscal year ending June 30, 2008 requests an increase in the employee benefits levy and also requests an emergency levy. The City also hopes to change the local option sales tax referendum to allow the 60%, which is now allocated to capital improvements, to be allocated to the general fund. The City believes these actions, in addition to controlling expenditures and a general increase in property tax valuations, will eliminate the deficit.

Conclusion - Response accepted.

- II-J-06 Local Option Sales Tax (LOST) - the Local Option Sales Tax referendum states revenues from the tax are to be allocated 40% for property tax relief and 60% for capital improvements. The City records the receipt of LOST in a special revenue fund and then transfers LOST to other funds for expenditure.

The City transfers 40% of the LOST receipts to the general fund to satisfy the 40% property tax relief requirement. Since the City's general fund levy is at the maximum and the City has also levied for insurance costs and for employee benefits, it is difficult to determine how the transfer to the general fund results in property tax relief.

Recommendation - The City should develop procedures to enable the City to identify local option sales tax disbursements to ensure the City is in compliance with the referendum.

CITY OF SPIRIT LAKE  
SCHEDULE OF FINDINGS - Continued  
FOR THE YEAR ENDED JUNE 30, 2006

**Part II: Other Findings Related to Required Statutory Reporting** - Continued

Response - The City believes that without the transfer of local options sales tax to the general fund, the City would have to certify less than the maximum tax increment financing revenues. This could result in a reduction of abatements to the debt service fund, and force the City to levy a tax for debt service.

In the future, it is the intention of the City to satisfy the property tax relief requirement with transfers to the Employee Benefits Fund or the Debt Service Fund and reducing those levies. That action is contingent on a change in the local option sales tax referendum.

Conclusion - Response accepted.